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Getting Down to Business: Governing the Hybridization of UK Charities

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ABSTRACT Charity organizations are important to solving complex social and environmental issues that are beyond the reach of government and commercial organizations. However, these organizations are under increasing pressure for survival due to a sharp decrease in their traditional sources of funding. This study examines how leaders of charity organizations can improve the financial security and impact of their organization by adopting commercial structures into their organization, and therefore undergoing a process of hybridization. We conducted a multiple comparative case study of 18 UK charities comparing how they engaged with emerging social finance funding opportunities that required them to adopt commercial structures which lay outside their dominant logic of action. We identified several aspects that influenced the likelihood of a charity organization to engage with this opportunity and, therefore, strategically hybridize. These included whether a charity executive had sufficient socialization in both the social and commercial logics to view social finance as a strategic opportunity and whether the organization could alter the role expectations of trustees with a commercial background to enable them to actively use both logics rather than compartmentalizing them in their decision-making. Our findings have important implications for research streams on hybridization and hybrid governance.

Keywords: charities, hybridization, hybrid governance, multiple logics

INTRODUCTION

The charity has been the most widely used organizational form to deal with social problems since the industrial revolution (Hwang and Powell, 2009). Charity organizations are primarily focused on serving the public interest or common good. They typically operate

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with a dominant social logic and keep the generation of funds to support their work as an important but secondary concern (Billis, 2010; Coombes et al., 2011; Hwang and Powell, 2009; Hwang and Suárez, 2019; Pache and Santos, 2013b; Smith et al., 2013). In the last 10 years, however, traditional sources of funding for charities, namely grants and donations, have decreased, creating a strategic problem for leaders of these organizations (Salway, 2020).

This decrease in traditional funding has coincided with an increased emphasis by broader institutions such as governments and funders on social impact through commercial activity (Casasnovas, 2022). This emphasis on commercial based solutions to societal problems has given rise to new 'hybrid' social enterprise organizations that combine commercial and charity structures in one organization (Battilana and Dorado, 2010; Pache and Santos, 2013b; Tracey et al., 2011). The decrease in charity funding and rise in the popularity of social enterprises have raised concerns about the sustainability of the charity as an organizational form (Salway, 2020). This, in turn, leads to an important theoretical and practical question: can charities, as single logic organizations, adapt to shifting institutional conditions that favour hybrid organizations and continue to deliver social impact?

Research has suggested that hybridity can provide an opportunity for charities to generate a sustainable revenue stream as well as social impact (Ko and Liu, 2021). However, a paradox exists for established organizations like charities who attempt to transition to a hybrid organizational form for strategic purposes. On the one hand, trends and hype around hybrid organizational forms have created more opportunities for established single logic organizations to try to use hybridity strategically to gain attention and resources (Cappellaro et al., 2020; Logue and Grimes, 2022). On the other hand, core assumptions from institutional theory predict that it will be very difficult for such organizations to move away from their established dominant logic (Lounsbury, 2007; Thornton, 2002; Thornton et al., 2012). Indeed, extant research proposes that hybridization of established organizations is likely to fail due to tensions created while trying to balance the incumbent and incoming logics, and that in this balancing act, incumbent actors holding positions of power, with discretion over core practices, can significantly influence the eventual failure of the hybridization process (Cappellaro et al., 2020).

To address this conundrum, this paper explores *whether/how leaders of charity organizations can govern a hybridization process successfully to achieve strategic goals*. Through a comparative case study, we traced how 18 charity organizations in the UK responded to decreases in funding, by attempting to increase commercial activities funded by social finance loans. In answering the above question, this paper develops theory on how strategic goals can be reached in single logic organizations via increasing hybridity. We offer a theoretical explanation for the successful management of the tensions of hybrid organizing in the upper echelons as an organization moves from being guided by a single logic to multiple logics. This gap in our knowledge is vitally important as it elaborates how mission-focused organizations can react to shifting institutional conditions and improve the viability of their organization through commercial activity.

Our findings reveal a set of antecedents and strategies through which charity leaders can complete a hybridization process successfully to achieve their strategic goals. First, we find that a charity executive needs to be previously socialized in the commercial logic

to combine the commercial and social logics in their strategizing and perceive social finance (and the associated increased commercial activity) as an opportunity for their charity. Second, we find that executives can face surprising resistance to this idea from trustees coming from a commercial background who understand the benefits of growth finance in a commercial setting and have compartmentalized (rather than combined) logics in their roles as charity trustees. To overcome this resistance, we find that leaders can engage in tactics to change the role expectations of these 'commercial' trustees within the organization's policies to encourage them to actively combine the commercial and social logics as they execute decisions for the organization. Finally, we find that organizations where the role expectations of trustees are altered sufficiently can successfully undergo hybridization, i.e., an increase in the commercial logic in structures and policies, even if they fail to take social finance loans.

Our study significantly contributes to the hybrid organizing literature by offering novel insights into how organizations induce and navigate hybridization processes (Cappellaro et al., 2020; Dunn and Jones, 2010; Pache et al., 2023). Contrary to existing notions grounded in institutional theory which predict that leaders will align with established logics and resist hybridity (Binder, 2007; Cappellaro et al., 2020; Dunn and Jones, 2010), our research demonstrates that leaders who are socialized in multiple logics can effectively manage the tensions of hybridization. By doing so, these leaders can strategically induce hybridity within the organization.

Moreover, we extend existing literature on the governance of hybrid organizations by introducing the concept of role-design as a critical factor influencing how charity trustees integrate multiple logics when faced with hybridization. Our research highlights deliberate tactics used to alter organizational roles, enabling trustees to combine logics and facilitate hybridization rather than rejecting it (Battilana and Dorado, 2010; Pache and Santos, 2010, 2013a).

Overall, our study provides a nuanced understanding of hybridization efforts within charities, elucidating both the individual and organizational requirements for successful hybridization initiatives. Additionally, we uncover the consequences for organizations when such efforts fail, offering valuable insights for both scholarly research and practical application in charity management.

THEORETICAL BACKGROUND

Hybridity as a Strategic Choice for Charities

Charities operate in a distinct institutional environment. Due to pressing societal issues such as the rise in inequality across nations and heightened concerns of climate change, there has been an increasing need for charity organizations. In line with this need, the overall number of charity organizations has greatly increased since the turn of the century (Morris et al., 2011). Along with this increase in numbers, however, have come increasing pressures (Kerlin and Pollak, 2011). Studies have documented that traditional charities have been affected by the reduction in private donations and government funding and are facing an increasingly competitive environment (Beaton et al., 2021; Dart, 2004; Ko and Liu, 2021). In

addition, the wider institutional environment has adopted a more rationalized approach to social provision with increased requirements for charity organizations to show transparency and accountability (Kerlin, 2013).

Institutional theory predicts that charities will look for solutions to these problems within the charity logic (Thornton et al., 2012). The charity logic emphasizes impact to beneficiaries as a core principle, but research has identified that the institution of charity has become increasingly rationalized since the 1980s. This rationalization is still within the dominant charity logic but has made charity practices more 'business like' (Hwang and Powell, 2009). One aspect of this rationalization is that charities are engaging in more strategic decision-making, with their leaders basing their decisions on the longer-term goals of the organization (Verschuere and De Corte, 2014). Studies in this research stream have identified that charities and their leaders are more entrepreneurial in their strategic decisions (Coombes et al., 2011; Maier et al., 2016; Morris et al., 2011) in that they are seen to be more proactive in developing new and different products, services, and processes, and 'taking bold and aggressive steps to exploit opportunities' (Morris et al., 2011, p. 947). Another aspect of the rationalization of charities is the increased managerial professionalism (Hwang and Powell, 2009) and introduction of corporate management practices (Hvenmark, 2016). This has seen charities being more efficient and streamlined in their practices and structures, showing an increased reliance on professional staff in executive positions, and developing more strategic decision-making functions (Hwang and Suárez, 2019; Maier et al., 2016). It is important to note that, despite this rationalization, the social logic that guides charities has remained the dominant logic of action (Beaton et al., 2021).

Many scholars have suggested that to address the decrease in funding opportunities, charities can acquire commercial revenue streams to ensure financial self-sufficiency (Fitzgerald and Shepherd, 2018; Maier et al., 2016; Pache and Santos, 2013b). However, studies have not been explicit about how these single logic organizations can shift to a hybrid state, combining social and commercial logics (Beaton et al., 2021). To the contrary, institutional theory predicts that challenging the dominant order in organizations embedded in the charity logic will be unlikely and difficult to achieve (Thornton et al., 2012).

In a rare study of non-profits becoming social enterprises, Ko and Liu (2021) have found that in these organizations, 'institutional entrepreneurs' not only developed revenue models from offering goods and services that relate to their charitable practices (e.g., theatre performing training), but also introduced new profit-seeking commercial practices selling goods and services that do not relate to their charitable practices (i.e., operating retail stores and café restaurants). However, insights into *how* charities can hybridize and what tensions they need to overcome while introducing the commercial logic to the core of the organization are missing. It is crucial to uncover empirical examples of how this process is initiated and managed in order to develop a clear picture of the success factors for one of the few paths available to charities to increase revenue while operating under shifting institutional conditions. In the section below, we review extant literature on the governance of the hybridization process.

Governance of Hybridization in Organizations

Research within institutional theory has identified how elements of two institutions can be blended in one hybrid organization (Battilana and Dorado, 2010; Pache and Santos, 2010; Pache et al., 2023). Hybrid organizations that blend social mission and economic value have been gaining popularity as an alternative to the traditional charity model (Battilana and Dorado, 2010; Pache and Santos, 2013b; Smith and Besharov, 2019). One reason the literature has provided for why social entrepreneurs increasingly choose a hybrid organizational form instead of a traditional charitable model (based on grants and donations) is to scale impact quicker and be more financially independent (de Cuyper et al., 2024; Gümüşay et al., 2020; Pache and Santos, 2010; Ramus et al., 2017; Smith and Besharov, 2019; Tracey et al., 2011).

Extant work has established that there are three key issues for leaders of these organizations to manage hybridity effectively. First, the balance of hybridity within the organization's governance structure, including the executive team and board of directors, is crucial for addressing tensions related to hybridity (Bruneel et al., 2020; Mair et al., 2015; Pache et al., 2023; Wry et al., 2014). For instance, Mair et al. (2015) emphasized how the relative strength of the two logics in a hybrid organization influences whether the organization will be governed under a single logic or a dual logic framework. In a study of nanotech start-ups, Wry et al. (2014) discovered that a 'header-modifier' structure in their governance, where one category serves as the primary logic but is adapted by elements of the other, enabled ventures to successfully establish a hybrid organization bridging two categories. More recently, Pache et al. (2023) found that diverse boards may assist social enterprises in maintaining their hybridity by fostering dual-focus attention to multiple goals. A key insight from these studies is that board members typically represent the logic with which they are most familiar (Pache et al., 2023; Wry et al., 2014).

Second, hiring and socialization policies have been highlighted as key mechanisms in the management of hybridity (Battilana and Dorado, 2010; Jay, 2013; Pache and Santos, 2013b). For example, Battilana and Dorado (2010) found that microfinance organizations, which combine banking and development logics, hired inexperienced employees, and then socialized them in both logics. This ensured that employees were committed to the organization's social mission and developed the skills necessary to achieve dual goals. In contrast, hiring former bankers or social workers created competing subgroups in the organization that threatened the balance of logics in the organization.

Third, hybrids can develop guardrails such as formal structures and external stakeholder relationships to balance tensions from both logics (Pache and Santos, 2013b; Ramus et al., 2017; Smith and Besharov, 2019). Organizations can thus have two logics present, but compartmentalized where only one logic defines the core activities in a given part of the organization (Ramus et al., 2017). Alternatively, Besharov and Smith (2014) argued that an organization is operationally hybrid when two logics guide practices and shape core activities such as when a social enterprise is equally influenced by maximizing profitability and delivering social good. Thus far research has identified that organizations can develop enough flexibility to deal with the tensions of hybridity over

time and still be structured enough to allow the organization to function (Smith and Besharov, 2019).

While research on the management of *hybridity* has begun to understand how hybrid organizations can be structured by their leadership to successfully balance tensions and deliver social and economic value, these findings mostly apply to newborn hybrid organizations that do not need to deal with the powerful demands of a single dominant logic (Thornton, 2002). Studies examining *hybridization*, i.e., the introduction of a new logic into an established organization have shown that the new logic will likely be contested by incumbents of the existing logic within the organization (Binder, 2007; Cappellaro et al., 2020; Dunn and Jones, 2010). For instance, in a study of a previously non-profit organization (Italian hospital) that attempted to hybridize, Cappellaro et al. (2020) observed that a logic perceived as fundamentally challenging to an organization's core values could only be introduced if the incoming actors worked to support existing organizational goals. However, the authors also found that actors with organizational roles and professional identities enshrined in the incumbent logic increasingly opposed and eventually shut down the new practices because of conflict between the two logics. This critical role of incumbent professionals in the success of the hybridization process is also supported by other research on hybridization (Binder, 2007; Dunn and Jones, 2010). A critical question that remains unanswered is *whether/how leaders of charity organizations can govern a hybridization process successfully to achieve strategic goals?*

METHODOLOGY

Given the limited theoretical development and empirical evidence in the area around our research question, we used an inductive comparative case study approach (Eisenhardt and Graebner, 2007) focusing on 18 charities based on interviews and archival data. Within each case we took a multilevel approach by focusing on the decision-making of individual executives and the changes executed at the governance level. We chose a comparative case design by choosing one funding opportunity – social finance – and similar organizations – UK charities – with funding problems that responded to this opportunity in different ways. Furthermore, as we discuss in more detail in our ‘Data sources and case selection’ section, we were able to find cases with enough variance between them that the multiple case study design was a good fit (Eisenhardt, 1989; Siggelkow, 2007).

Research Context

Since the establishment of Big Society Capital in 2011 by the British government, traditional funding for charities began to decrease and commercial-based loans and contracts became more commonplace, which gave support to the hybrid organizational model (Scott, 2011). The change first started with social impact bonds and then transitioned into financial instruments that looked much like commercial loans, but where a measured quantified social impact had to be demonstrated (Casasnovas, 2022). This posed a problem for charities that all the executives in our cases identified;

the traditional charity funding model was becoming unsustainable, and action was needed.

I want to use the word desperation, but I don't want to use the word desperation. Everybody knows we're in a changing landscape for charities... There's no lack of evidence of how our landscape has shifted and that's putting leaders in a place of thinking in new ways and be very willing to think about new approaches and at least several other ones with whom I've come in contact and are ready to understand social enterprise as opposed to social entrepreneurship. (CEO, international healthcare charity)

This theme was also reflected in the archival data we collected where industry-wide bodies calculated that both donations and grants were seeing a £4.6 billion decrease over the period 2011–14 in the UK and that charities were projected to have major gaps between budgets and funding in the next 10 years (National Council for Voluntary Organisations, 2015).

One potential solution to this gap between budgets and funding was increased commercial activity funded by social finance loans. There was a lot of general criticism and fear in the charity sector towards this approach due to the commercial activity and debt involved. While marketization of social provision was potentially an opportunity for some, it was also seen as a risk to undermine the whole charity sector (Dowling and Harvie, 2014). The below quote is reflective of the attitude of many charities at the time:

Borrowing is going to be difficult for us as we have no assets to offer as security. Therefore, we assume the interest rate will be high and not producing anything, it would be hard to guarantee that we could be in a position to repay the loan or the interest that falls due.

It is in this general setting that we conducted our multiple case study.

Data Sources and Case Selection

This study was part of a larger study where the goal was to understand how charities strategized to survive given the rapid decline in traditional funding. Within this study, we learned about the rise of a new phenomenon called 'social finance', which was a new type of loan offered to simultaneously fund revenue generation/venture growth and social impact, with terms like a regular commercial loan but also measurable social impact requirements. This was seen by many observers as a direct move away from traditional funding of the third sector and a call for more commercial-based solutions to social welfare (Casasnovas, 2022).

We began investigating this context by collecting archival data about social finance and the broader charity sector from government agencies, non-governmental agencies, consultancy groups and financial institutions to gain a broad understanding of social finance from the perspective of these different stakeholders. Examining charities' decisions regarding social finance gave us a single issue to examine across cases

Table I. Defining elements of charities and commercial businesses

<i>Core Elements</i>	<i>Commercial principles</i>	<i>Charity principles</i>
Ownership	Shareholders Typically, a Board of Directors and Non-Executives jointly responsible and accountable	Members Typically, a Board of Trustees responsible for oversight and management of assets, with a separate management team responsible for implementation
Governance	Share ownership size	Private elections
Operational Priorities	Market forces and individual choice <i>No mission lock</i> : Mission is not the defining element it is in a charity. Flexible on how it goes to market <i>Trading</i> : Can effectively undertake trading as it sees fit	Commitment about distinctive mission <i>Mission Lock</i> : A public benefit test must be passed by the Charity Commission. All assets must be used in pursuit of the objects of the Charity <i>Conditional trading</i> : Can undertake trading in a charity if aligned with mission lock; also if below certain de minimus limits
Distinctive Human Resources	Paid employees in managerial controlled <i>Firm</i>	Members and volunteers in <i>Association</i>
Distinctive Other Resources	Sales, fees Typically funded from a mix of debt and equity	Dues, donations and legacies Typically funded from a mix of grants, donations, investment income, and government contracts

Note: Adapted from Billis (2010).

to see how an opportunity embedded in a different institutional logic was perceived. Table I describes key differences in charity and commercial logics important to this study.

Our background interviews and observations revealed that taking on social finance was a contentious issue for charities, as it involved setting up commercial activity to pay it back. Interestingly, there seemed to be different groups emerging in (a) how some saw it as an opportunity and others did not and (b) how some charities adopted it already and others struggled to do so or gave up. This gave us valuable variance across similarly large charities regarding an important phenomenon – how they strategized (or not) to access funding embedded in a different institutional logic. We then began collecting data through the process described below.

After we solidified our research question, we focused on identifying suitable cases to study. We approached a charity educational organization/think tank in London who worked with charities and therefore could identify UK charities that would likely be eligible for social finance. Two key criteria were used to identify suitable cases – the charity had to have a professional infrastructure and at least 1 million pounds of income from all sources. We chose these two criteria, because without them a charity could not realistically consider a growth finance loan to fund commercial activity.

Given our interest in strategic decisions taken by these charities, we chose to focus our data collection on the upper echelons of charities as opposed to internal processes throughout their organization. As such we started contacting their leadership for interviews.

After going through a list provided by the charity educational organization, we had 32 potential cases. Given that many of these were brand-name charities with famous leaders (several of them with royal titles and knighthoods), gaining access was a difficult process. After our initial round of contacting the charities and requesting access, we obtained 12 cases for our study. They were placed into three buckets – those who did not see social finance as an idea to be considered, those who saw social finance as a good idea but faced resistance from the board and finally, those who did not face resistance in taking out a social finance loan to fund commercial activity. The initial interviews were conducted between May 2015 and June 2016. After building our cases, we observed that our cases were unbalanced in that we did not have enough organizations who had successfully taken a social finance loan, so we added a further six (four successful and two unsuccessful) cases in 2019/2020 to balance our sample.

The 18 cases in our sample all had a professional infrastructure and had an executive team of between three and six members (typically roles such as CEO, Director of Operations, Finance Director, Head of Fundraising and Director of Communications). We initially chose to focus only on the executive responsible for evaluating this opportunity – typically the CEO or Finance Director. In cases where there was another executive closely involved, we also interviewed them. The interviews ranged from 27 to 86 minutes in length and were divided into three sections exploring the respondents' background, what they thought of social finance and the steps they took (or not and why) to take a social finance loan and increase commercial activity. In three of the cases, we spoke to a trustee as well to obtain some additional context. In total we conducted 29 interviews with 26 informants.

To provide triangulation with our executive and trustee interviews, we collected in-depth archival data for each of the 18 cases focusing on decision-making and policy changes. For each case we collected annual reports, trustee and executive profiles, accounts and strategic plans published from 2016 to 2021. Where possible we also collected information from public interviews with focal charity leaders and from social finance lenders. We collected a total of 345 additional documents with over 10,000 pages of data. Table II below gives information on each case and the associated data.

Data Analysis

Data analysis consisted of four phases in which we followed an iterative process, moving between data and theory, as described below.

Phase 1. We began by writing a short case history for each of our 18 cases, describing their founding and history, what type of work they did, what their main sources of funding were and any changes that were recently completed or currently being proposed. We triangulated between our archival and interview data to give us an understanding of what the history of each case was and what they were planning on doing in the future.

Table II. Cases and data

<i>Case</i>	<i>Size of executive team</i>	<i>Average annual income</i>	<i>Primary data collected</i>	<i>Secondary data collected</i>
Homelessness charity A	6	5–10 m	Interview with CEO	Trustees' profiles, executive profiles Annual reports 2015–21
Sexual health charity	6	1–5 m	Interview with CEO	Trustees' profiles, executive profiles Annual reports 2015–21
Disability charity	4	40–50 m	Interview with CEO	Trustees' profiles, executive profiles Annual reports 2015–21
Sector-specific employee charity	5	1–5 m	Interview with senior manager	Trustees' profiles, executive profiles Annual reports 2015–21
International poverty charity	6	40–50 m	Interview with senior manager, former head of finance and head auditor.	Trustees' profiles, executive profiles Annual reports 2015–21
International women & children's poverty charity	3	50–60 m	Interview with CEO and former finance director	Trustees' profiles, executive profiles Annual reports 2015–21 Strategy documents 2015–2021
International poverty and homeless charity	5	1–5 m	Interview with finance director	Trustees' profiles, executive profiles Annual reports 2015–21 Strategy documents 2015–21 Case study on social finance use.
International humanitarian charity	6	1–5 m	Interview with CEO	Trustees' profiles, executive profiles Annual reports 2015–21
International health & poverty charity	6	50–60 m	Interview with CEO	Trustees' profiles, executive profiles Annual reports 2015–21
International sanitation charity	8	10–20 m	Interview with CEO, trustee, and former trustee	Trustees' profiles, executive profiles Annual reports 2015–21
Disability charity A	6	30–40 m	Interview with CEO and former director of Philanthropy and donations	Trustees' profiles, executive profiles Annual reports 2015–21 Strategy documents 2015–21
Community charity	4	1–5 m	Interview CEO and communications director	Public interview with CEO Trustees' profiles, executive profiles Annual reports 2015–21 Strategy documents 2015–21 Case study on social finance use
Environmental charity	5	5–10 m	Interview with CEO	Trustees' profiles, executive profiles Annual reports 2015–21. Case study on social finance use

(Continues)

Table II. (Continued)

<i>Case</i>	<i>Size of executive team</i>	<i>Average annual income</i>	<i>Primary data collected</i>	<i>Secondary data collected</i>
Mental health charity	4	1–5 m	Interview with CEO	Trustees' profiles, executive profiles Annual reports 2015–21. Case study on social finance use
Homelessness charity B	6	10–20 m	Interview with finance director and coordinator of Social Impact Bond	Public interview with head of operations, legal advisor and CEO Government impact evaluation Trustees' profiles, executive profiles Annual reports 2015–21 Case study on social finance use
Apprenticeship network for unemployed	5	Not available	Interview with CEO	Website information Case study on social finance use
Homelessness charity C	6	20–30 m	Interview with CEO and head of legal affairs	Trustees' profiles, executive profiles Annual reports 2015–21 Case study on social finance use two business plans
Children's charity	5	20–30 m	Keynote speech by CEO	Public interview with CEO and Chairman Annual reports 2015–21 Case study on social finance use two business plans

Phase 2. In the next phase of our analysis, we focused on the executive interview data. We compared across the 18 distinct cases in our data to identify differences and similarities concerning executives that were considering taking social finance, that had taken social finance, or that had decided not to take social finance to fund commercial activity for their organization. The act of taking a social finance loan was preceded by actions wherein the charity executive identified a particular social finance opportunity and led changes within the organization to pursue that opportunity. This allowed us to identify three groups in our data – taking on a social finance loan, considering (to various degrees) but eventually not taking on the loan, or ignoring/not considering a social finance loan. Here we were able to identify the first aspect that varied between the first two groups and the third group. The third group of executives had an exclusive socialization in just the social logic while the executives in the first two groups had a clear background in both the social and commercial logics.

We observed in our data that the executives were discussing the role of the board as vital in moving forward with the opportunity. When we compared between the first and second groups, the role of trustees was clear in helping (or not) the executives. Furthermore, the organizational level policies implemented in relation to pursuing social finance funding were vital in what the executives in the two groups described as blockers and enablers of taking the opportunity.

Phase 3. In the third phase of analysis, we switched our focus to the strategy-making of the organizations, focusing on the 16 organizations (groups one and two above) that saw social finance as a potential opportunity. We were particularly interested in the strategic decisions in terms of stated goals, risks, proposed plans of action, and whether any organizational roles and structures were changed in the process. We also explored whether there were inconsistencies between the plan in the mind of the executives leading the change and the official policy of the charity. We identified in our coding that executives were typically responsible for the specifics in writing policy but needed approval from trustees over major shifts in strategic direction. Therefore, we triangulated between the executives' stated intentions and the policy that was eventually adopted.

First, we coded the strategy, outlook, and governance sections for each year (2015 to 2021) in the annual reports of each of the 16 cases and compared across cases. We also triangulated this with our interview data. Here we began to establish four points of comparison – first, what risks and strategic priorities the charities listed in their annual reports, second if the organization introduced new activities e.g., training specific to finance and commercial activity, third if they changed any other strategy, and fourth whether they had eventually taken on a social finance loan. This process helped us develop a large variance table of policies, strategies, and actions.

Second, we looked at the specific impacts of taking on a social finance loan. We focused on the 10 cases where the organization attempted to take on social finance and compared the strategic plan including commercial growth, the details of the offer, the revenue model, the social impact and how this was described by the executives and in the annual reports. We also compared total income and overall expenditure on charitable activities for these charities.

Third, to see if this impact was reflected in the makeup of the boards, we coded for the background of every person listed as a trustee in the 2016 annual report of each charity. We were able to find information from three sources – charity websites, UK charity register, and LinkedIn. We initially coded for the two main backgrounds – social or commercial. Most trustees were easily assigned to either category as they had spent their life either working in the charity sector or in business. Any uncertainty in coding was discussed and resolved between the co-authors. In the process of coding, we noticed that a third trustee category existed – someone who combined social and commercial logics either due to working in a sustainability position in business (e.g., head of sustainability for a large multinational) or in a social enterprise. In 2016, only two of the cases in our sample had such 'combined' trustees. To see if the configuration of trustees had changed over time after the organizations had taken a social finance loan, we repeated this exercise in 2021.

Phase four. At this point, we had comprehensive comparative evidence identifying how charities varied in their approach to social finance and engaging in commercial activity to attract new resources. We reassessed our analysis with regards to literature on hybridization, institutional logics and rationalization of the charity sector and began to refine our comparative analysis as cases of not attempting, attempting and failing, or succeeding in hybridization. As we fitted our data to existing theory, we

noticed distinct temporal patterns. We therefore arranged our comparative analysis in a temporal sequence using temporal bracketing (Langley, 1999) to provide a multilevel model of how charities and their leadership make (or not) a strategic decision to hybridize.

FINDINGS

In this section we present four temporally sequenced phases: 1) identification of an opportunity (or not) by the charity executive, 2) board reaction (resistance or support), 3) governance changes, 4) taking of the opportunity (or not) and associated outcomes.

Identifying an Opportunity outside the Dominant Social Logic

Even though all charities in our study were rationalized organizations, there was variance in whether the executives saw social finance as a potential tool in their strategy-making. We identified that in 16 of the 18 cases they did and in two they did not. As described in Table III, in the 16 positive cases the ability of the executives to *combine the commercial and social logics* thinking about potential strategic options helped them see how taking a social finance loan and pursuing a market-based approach could secure beneficial outcomes for their charitable organization. For example, the below CEO could see how generating a profit could relate to achieving a social mission for their organization:

It's like a for-profit model rather than a non-profit one. That you're not trying to do fundraising where you need to get a return and, ideally, at least three to one, over a number of years because you, obviously, are going to take that money and invest it to do your mission. Whereas with this you're delivering the mission by the investment and so you don't need to worry about the profit except for that you have to pay back your investors and pay interest and that kind of thing. (CEO, International women & children's poverty charity)

As illustrated in the third column in Table III, the executives in the 16 positive cases could articulate a potential strategy for the organization using both logics: they identified a problem in terms of sustaining the charity's mission and found a commercial-based solution to it. This solution was considered outside the dominant logic of charities because it involved *market-risk*. Market risk is a key element of the commercial logic, whereby an actor takes a risk that their product or service will work in the market and invests capital that they might lose (Thornton et al., 2012). The below quote illustrates the difference in the expectations of market risk between the 'old' and 'new' models:

My personal belief is that the sector is moving away from its generational view that we operate in a different economic model than the rest of the world – a model fundamentally predicated on voluntary endeavor and that its sustainability was based upon donations. And if it wasn't by and large voluntary then the organization couldn't call

itself a charity... I think the new model and social finance is representative of this new model which says that charities should operate in the new economy that is largely capitalist in its education and because it's largely capitalist in its education, there is a belief that their financing is an essential part of this economy and that the charity sector is used to place finance like all other businesses operating in the invested economy to leverage their position in the market. (CEO, Homelessness charity B)

In contrast, the executives in the remaining two charities could not see why commercialization and taking on debt would be something to consider as a charity and thus could not combine the commercial and social logic in their strategic decision-making:

I know of social finance, but it's not really something in the realms of reality for me. [...] Our focus is maintaining our fundraising operation. (CEO, homelessness charity A)

I think it would be a question, though, why would you want to have that loan. If you want the loan for revenue purposes, then it's a bit of a circular argument. If you want the loan to have a capital asset somewhere else, purchasing another premises or something like that, then that's another matter, but I think most organizations would say, well it's a bit pointless getting a loan just so we can use that on revenue expenditure, when we're going to have to repay it out of revenue expenditure. (CEO, Sexual abuse & assault charity)

To shed light on the drivers of the variance, we explored the backgrounds of these two groups and saw some key differences. We identified that executives in the first group of 16 charities (that viewed social finance positively) understood both logics underpinning social finance. They had a financial training or background as well as a clear understanding of the logic of charity. For example, the CEO of the international sanitation charity worked in advocacy: 'For many years, I worked in advocacy in Latin America and in central America', but also had commercial training: 'Since I did the Executive MBA program, I have worked in four or five Chief Exec roles'. In the remaining two cases, the CEOs had spent their careers in the charity sector in frontline roles and then leadership positions. In these instances, they were thinking strategically about funding problems for their organization, but their thinking remained within the charity logic.

In summary, an important step for hybridization occurred in the mind of some executives before any action was taken by the organization.

Turning Idea into Reality: Trustee Resistance and Differing Responses to Market Risk

We identified in our data that an executive seeing an opportunity was not enough for their organization to take advantage of it. The board of trustees of the charity needed to approve such strategic decisions. From the 16 cases who identified increased commercial activity supported by social finance as a potential opportunity, the executives reported three different outcomes when they proposed the idea to their boards. The first was

Table III. Executives identifying an opportunity

<i>Case</i>	<i>Executive</i>	<i>Articulating strategic idea involving market risk</i>	<i>Background</i>
Homelessness charity A	CEO	Did not see it as an opportunity	Whole life in charity sector
Sexual health charity	CEO	Did not see it as an opportunity	Whole life in charity sector
International humanitarian charity	CEO	<p>Yes. Trading to improve financial security of the organization and continue impact</p> <p>I felt for some time we need – if my role is to think about the legacy of the organization and put in place things that in 10 years' time and other chief executive will be able to run with, I need to think now about how to do that. This is one alternative way. It seems obvious to me, if you can figure out what you might be able to trade or how you might be able to sell a service, again, we are a service, how we might be able to sell something that can benefit the charity, that's a good idea</p>	<p>Worked as a consultant for 5 years</p> <p>Worked in international aid field most of her career</p>
International poverty charity	Director	<p>Yes. Increase impact of the organization through commercial growth</p> <p>...we want them to grow because we want them to be able to buy from the populations that we're seeking to serve</p>	<p>Has an MBA</p> <p>10 years' experience in charities</p>
International women & children's poverty charity	CEO	<p>Yes. Increase impact of the organization and financial security through for-profit model</p> <p>It's like a for-profit model rather than a non-profit one. That you're not trying to do fundraising where you need to get a return and, ideally, at least three to one, over a number of years because you, obviously, are going to take that money and invest it to do your mission. Whereas with this you're delivering the mission by the investment and so you don't need to worry about the profit except for that you have to pay back your investors and pay interest and that kind of thing</p>	<p>Has an MBA and experience in marketing and advertising</p> <p>12 years in charities as a manager</p>

(Continues)

Table III. (Continued)

<i>Case</i>	<i>Executive</i>	<i>Articulating strategic idea involving market risk</i>	<i>Background</i>
International poverty and homeless charity	CEO	<p>Yes. Increase financial security of the organization to continue impact through commercial activity</p> <p>I think although the model has been working, it has in some instances been working by accident rather than design, and when we scrutinize financial strength of some of our communities, it's not good reading. They've plugged the gap like a cult and raising money</p>	Worked at the interface of business and charity for 30 years

where the discussions remained at a theoretical level and did not proceed as an agenda topic for the board (six cases). The second group was where it was given serious consideration at the board level (six cases). Within this group resistance from the board remained high and change was required to move forward. In the third group, the executives received board support without significant resistance, but change in the organization was still required to move forward (four cases).

Serious consideration and resistance. We observed two differences between the first group, where social finance was not given serious consideration at the board level, and the second group, where it was. The first aspect that differed was that in the second group, the perceived financial need seemed to be much more immediate and quantifiable. In the annual reports for this group, the ability to sustain the impact of the organization was listed as the most important risk to the organization. Each of the six charities in this group had a clear resource constraint and the injection of money from a social finance loan would increase their ability to support beneficiaries directly. For example, the CEO of the mental health charity described how they had a limit on how many people they could offer treatment to because of physical space constraints. Below he describes his worry about survival if they did not grow:

Our strategic decision making has been about an element of diversification to ensure that we can obviously meet the needs of our population, but also thrive and survive as a charity. (CEO, Mental health charity)

The second aspect that varied between these groups was the organization's familiarity with the format of the social finance opportunity, even if they were not familiar with the logic of it. We observed that all charities in the second group already had experience with contract-based deliverables and or pay-for-service provision. They were all engaged in increasing their impact in a quantifiable way through a contract with the government or similar organization in turn for funding. This gave them experience in providing a service

on a contractual basis even though there was no market risk involved, as the below quote explains:

There is the risk that we would be reputationally damaged if we failed to deliver because our investment partner's withdrawing the investment, seeking a new provider. It could have significant reputational damage but we didn't have the financial risk associated with taking on the whole contract as our risk. (CEO, Homelessness charity B)

Similarly, the CEO of Disability Charity A described below how they were providing services that generated income but involved no market risk:

We provide 24/7 support for people... with multiple additional needs, social care. That turns over about £14 million a year.

Again, because as a service, individual by individual, we're supporting about 500 people. It's very low volume, high value work because sometimes that could be staffing ratios to run 24/7 with somebody of maybe three staff to one person that we're supporting if they've maybe got profound disabilities. Our philosophy there is we wanted to make sure that we at least generate full cost recovery. (CEO, Disability charity A)

Overall, urgent financial need and familiarity with the format of the hybrid opportunity were two critical factors that helped executives enter serious conversations with their board of trustees.

As stated before, the executives needed board approval to make what was considered a radical shift into a new hybrid organizational form and to increase exposure to market-based risks. Boards were typically made up of two kinds of trustees: those who came from a social background related to the cause of the charity and trustees from a commercial background who wanted to do some good. All charity executives in the second group that considered social finance seriously explained that they expected the trustees from a social background to be against the idea of increased commercial activity as they felt it would damage the charity's reputation, as the below illustrates:

I've got trustees who for Christian value ethic reasons will say, 'You can't borrow money', [chuckles] and so I have to bring them very carefully on the journey, and we are borrowing money because we've got some loans today, but the prospect that we might borrow a substantial sum and think, 'Well, how are we going to repay that?' or, 'How are we going to service that?' is quite a scary thing for them. (Finance director, Disability charity C)

The executives expected to rely on the support of the commercial trustees, given their understanding of the benefits of commercial activity and growth. However, as evident in the below quote, most executives found that the trustees with a commercial background were also blockers of change.

I had this conversation with my chair [of the board of trustees]. He used to be the CEO of [a FTSE 100 company], it's where he made all his money. He's now a non-exec director. He would definitely be much much more risk taking in his commercial life than he is because of the chair of a charity. If I explore that with him, he says that he thinks the rules of the game are different. So if he was in a 40 mil turnover company he would still get grief if it went wrong but shareholders understand that they're buying a share and taking a risk and then it works or it doesn't. (CEO, Disability charity A)

The charity executives were surprised to find out that many charity board trustees with commercial backgrounds were sceptical of social finance and viewed it with a social logic. In the below quote, a trustee for the international sanitation charity, with a day job as an investment banker, explains their approach in terms of reputational risk and irresponsible governance:

So, from my perspective, it would be anything that risks our unrestricted reserves, and then expanding on that it would be things that have a cash flow requirement, things that include us taking on contractual risk, so risk of performance, and in both those two things, obviously, there's a level of materiality that starts to concern me. It would be things that impact our brand and reputation. So, if you're entering in a new activity, how are we comfortable that that activity is consistent with our brand and our values? (Trustee, International sanitation charity)

The charity executives in these cases discussed how most businesspeople seemed to leave their commercial norms, practices, and mind-sets at the doorstep and actively immerse themselves in the social logic, treating it as distinct from their commercial logic day jobs, as in the below quote:

I've worked with lots of boards that have businesspeople on them and it's always the case once they walk in through the door they have this whole charity mind set about them. In fact, they can be worse than people who have not worked in the commercial sector. (CEO, International sanitation charity)

This unwillingness was also consistent with the statements in official charity documents for the key responsibilities of the trustees: they were expected to be 'competent governors' and not skilled professionals expected to take risks. The social institutional logic of the charities overpowered – or blinded – trustees whose working lives were dominated by the commercial logic, as explained below:

The political scene can be pretty toxic. Imagine if a top charity lost a load of money in a commercial venture: it would be another stick to beat the voluntary sector within the Daily Mail. So some bits are frustrating, particularly when you're an executive. The environment is not particularly conducive. When businesses fail once in a while, people expect it; if a household charity fails, then it would be tough for the individual chair or whoever it might be. (CEO, Disability charity A)

The charity executives in this group had to work against this resistance to take a social finance loan.

Serious consideration and comfort with market risk. In the remaining four cases out of 16 where there was immediate initial support for the social finance opportunity, the boards were comfortable with market risk and they were already engaging in more commercial activity than the other charities. These organizations also had a higher-than-average number of trustees with a commercial background. These charities were also explicit in their trustee induction packages about expecting these trustees to use their business skills. This difference was also reflected in the official documentation from these charities where they listed the skills expected of their trustees. As described in Table IV, column 2, these expectations were very different from the other groups, as trustees in this group were expected to use their specific knowledge to help in strategic decision-making.

To summarize, of the 16 cases that saw social finance as an opportunity, in six cases the idea remained theoretical in board discussions (described in the unshaded rows in Table IV). In the other 10 charities, the opportunity was seriously considered at the board level. Of these, four charities were already engaged in extensive commercial activity and had some initial support from trustees, but still needed to make some changes to get a social finance loan. The other six cases struggled more as trustees with both types of backgrounds, charity and commercial, showed resistance to idea of increased commercial activity. Below we document how executives in these 10 charities strategized to move their organizations towards taking a social finance loan and increasing commercial activity.

Altering Trustee Role Expectations as a Route to Hybridity

The difference in levels of board resistance in the previous section led us to further examine what happened in the 10 charities that continued to pursue social finance as a funding source. This meant comparing the actions of the executives, but also the organizational level changes that required board approval. In our coding of the executive interviews and organizational reports, we identified that all these 10 organizations altered the hiring and training requirements for trustees to reset the expectations of the organizational role, particularly for trustees from a commercial background.

Interestingly, we observed a pattern where the six cases, who faced resistance in their board, moved closer to the four that faced little resistance in their policies as they all pursued social finance funding. The executives we interviewed explained that as full-time drivers of the agenda in their organization, they were responsible for introducing these changes which were then reflected in official policy changes listed in Table IV. We detail these strategies below.

Changing the role expectations of new commercial trustees. One similarity we identified among the charities trying to take social finance was that they started to express clear expectations from commercial trustees to combine their commercial skills with their charity knowledge. In the below two excerpts from the 2017 and 2018 annual reports of a community charity,

Table IV. Resistance from trustees and role redefinition in organizational policy

Case	Support from trustees at first proposal of social finance and increased commercial activity?	Redefining the role of business trustees in recruitment?	New training and induction for trustees emphasizing market risk and long-term strategic thinking?
International humanitarian charity	<p>No. Unwilling to engage in market risk</p> <p>Both with the previous chairman and the current chairman, both of them fully accept that we need to think about legacy and that that is the role of the board to do that. That we need to look at options</p> <p>In terms of what I've done to achieve that, it's just talking to them about it. I flagged it in various areas, it's on our plan for this year to look at it. I've messaged that. I've thought about how I've messaged that to the board in terms of, 'This isn't for now, it's for the future, but we need to think about it now'. (CEO)</p>	No	No
International poverty charity	<p>No. Unwilling to engage in market risk</p> <p>...we were able to win people's hearts and minds, and say look, we're not about to turn into evil venture capitalists, and we had to reassure them on the risks and the ethics of it. That actually wasn't even a big deal because as I said we weren't actually making investments ourselves, we were just facilitating them, it was still seen as quite a big shift. (Senior Manager)</p>	No	No
International women & children's poverty charity	<p>No. Unwilling to engage in market risk</p> <p>They are very enthusiastic, albeit that they are also risk averse [chuckles] so when you actually present them with the commercial case and say, 'Right, here it is. You need to put half a million on the table', or, 'We need to set up this thing. We haven't actually got the investors yet', or whatever, I think they might be slightly different about it. (CEO)</p>	No	No
International poverty and homeless charity	<p>No. Unwilling to engage in market risk</p> <p>The discussion is with the movement. I have a very large stakeholder base. Obviously, my trustees are the first ones that I have to convince, but then we have to take it to the movement. It's not a conversation you have once. It goes on and sometimes, I think four years into this, I started in my second year. For three years, I've been at it really. Sometimes I think, 'How many times have I told you that? How many times have I got to tell you this before you get it?'. (CEO)</p>	No	No

(Continues)

Table IV. (Continued)

Case	<i>Support from trustees at first proposal of social finance and increased commercial activity?</i>	<i>Redefining the role of business trustees in recruitment?</i>	<i>New training and induction for trustees emphasizing market risk and long-term strategic thinking?</i>
Sector-specific employee charity	No. Unwilling to engage in market risk Charity passively gives money to investments, but the board would not consider the idea at all of them doing commercial activity themselves	Yes Search for candidates via network and external advertising to fill skills gaps on the Board (Annual report, 2020)	No
International health & poverty charity	No. Unwilling to engage in market risk So, this organization has been used to working in a politically sensitive space of family planning and health for some time. So, it's not risk averse in that regard in terms of working in sensitive areas so it can tolerate some risk in that department. It isn't afraid to lose money of course as long as it's somebody else's money. (CEO)	No	No
Local Disability charity	No. Unwilling to engage in long term strategic thinking We are interested in social finance. The fact that I'd come from that background helps. The current treasurer is also a former partner, corporate finance partner for one of the accounting firms. He understands it but is more reluctant because he sees it as a social enterprise model rather than a charity model. He doesn't quite get why you'd want to use it in charities. (CEO)	Yes Search for strategic skills on the board with targeted searches. (Annual report, 2020)	Yes All new Trustees undertake a comprehensive induction process designed to enable them to contribute effectively as soon as possible. There is a programme of training linked to Trustee appraisals and a formal Board review. (Annual report, 2020)
Homelessness charity C	No. Unwilling to engage with market risk I think there was an education process for all of the senior team and the finance department to understand what this was because we'd never been this way before. There was a whole capacity-building process, which was about knowledge and understanding within the organization. (CEO)	Yes Strategic hiring process for board with skills requirement and professional interviews (Annual report, 2018)	Yes As part of an ongoing programme of governance work, the Board of Trustees and its Committees during the year self-evaluated their effectiveness, both individually and collectively through a series of questionnaires. The results from the self-evaluation were collated, and presented to and discussed by the Board of Trustees. (Annual report, 2017)

(Continues)

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Table IV. (Continued)

Case	<i>Support from trustees at first proposal of social finance and increased commercial activity?</i>	<i>Redefining the role of business trustees in recruitment?</i>	<i>New training and induction for trustees emphasizing market risk and long-term strategic thinking?</i>
Disability charity A	<p>No. Unwilling to engage in market risk</p> <p>In terms of the board, in the broad sense, we've got a very supportive board. I think it's about risk adversity and it's about risk adversity at board level, a little bit at maybe executive level. I think more at board level because we know we could clearly look to grow something, at scale rather than organically if we accessed social finance or to be honest if traditional finance. You could probably put a commercial case together as traditional financing relation to some of these areas. (CEO)</p>	<p>Yes</p> <p>Strategic hiring process for board with skills requirement and professional interviews (Annual report, 2018)</p>	<p>Yes</p> <p>Specific training and induction introduced in 2016</p>
Community charity	<p>No. Unwilling to engage in long term strategic thinking</p> <p>...when I came in, the board was very tired. They just recruited me as a new chief exec. I went to a board meeting, nobody talked to me as such. They didn't say, 'Who are you? What's your background? blah, blah, blah'. It was like, 'Oh my gosh. [chuckle] This is just bizarre'. ... I thought, 'Well where's your input, where's your vision for the future, for the organization? You're the governors. You're meant to have the strategic overview', and they didn't have anything. (CEO)</p>	<p>Yes</p> <p>Strategic hiring process for board with skills requirement and professional interviews (Annual report, 2017)</p>	<p>Yes</p> <p>Trustees specifically reviewed the progress of the commercial plan at a weekend commercial meeting consisting of presentations and discussion. (Annual report, 2021)</p>
Mental health charity	<p>No. Unwilling to engage in market risk</p> <p>My trustees are generally cautious and generally glass half-empty and all of that. (CEO)</p>	<p>Yes</p> <p>Strategic hiring process for board with skills requirement and professional interviews (Annual report, 2018)</p>	<p>Yes</p> <p>Introduced a strategic plan in 2021 requiring 'a range of income sources' and 'proactive planning' that trustees must agree to and understand before they join</p>
Homelessness charity B	<p>No. Unwilling to engage in market risk</p> <p>I wasn't around on senior level at the time, this is a number of years back, is that there were discussions with the board about whether we do this because there's an element of risk, of course. (Senior director)</p>	<p>Yes</p> <p>Strategic hiring process for board with skills requirement and professional interviews (Annual report, 2016)</p>	<p>Yes</p> <p>In 2011, a paper setting out governance expectations called 'A Blueprint for Working Together' was produced and approved and this continues to be a reference point for the Board that is reflected on at the annual Board away-day. (Annual report, 2016)</p>

(Continues)

Table IV. (Continued)

Case	<i>Support from trustees at first proposal of social finance and increased commercial activity?</i>	<i>Redefining the role of business trustees in recruitment?</i>	<i>New training and induction for trustees emphasizing market risk and long-term strategic thinking?</i>
Children's charity	Yes. Activated, diverse board for several years Our board is diverse. About a third is social care, two thirds business so when we first started exploring social finance with the board, they were ready to commit. They understood the risk issues, they understood the need to diversify our income streams and we've been pursuing a very active income diversification strategy since I became CEO about four and a half years ago. (CEO)	Yes Strategic hiring process for board with skills requirement and professional interviews (Annual report, 2019)	Yes All new Trustees receive a bespoke induction plan according to individual need (Annual report, 2020)
Environmental charity	Yes. Activated, diverse board for several years Founded the charity with a requirement for activated trustees	Yes Strategic hiring process for board with skills requirement and professional interviews (Annual report, 2018)	Yes The charity had specific induction plan aimed at hiring activated commercial trustees since it was founded
International sanitation charity	Yes. structural reason So it's technically a private company but its operated like an NGO. We have eight shareholders – there are five private companies and three non-profit organizations. (CEO)	Yes Now a private company	No Already structurally hybrid
Apprenticeship network for unemployed	Yes. structural reason It's been constituted as a commercial company	Yes Now a private company.	No Already structurally hybrid

a shift can be seen in the expectations from trustees in terms of the active skills required (see also Row 3 of Table IV). In the first excerpt from 2017 there is no explanation of what skills are required:

Each trustee is elected for a period of up to three years. Each year at the [charity name] AGM either one-third, or three (whichever is the greater number) of the trustees on the board come up for re-election with the longest serving one-third, or three, trustees having to step down. (Annual report 2017, Community charity)

The excerpt below from the annual report in 2018 points to how they now required a professional experience and skills from trustees with a commercial background:

To ensure that new trustees are appointed regularly the board has undertaken a skills audit of current trustees and matched those against the skills requirement after analyzing the most recent business plan in order to identify skills gaps. The skills audit is due for review on 18/19. The board continues to seek to recruit people with appropriate

skills, experience and/or passion and invites potential new trustees to shadow their meetings as well as undertake Community pre-trustee induction process. (Annual report 2018, Community charity)

In the below quote the communication director of the charity explains that she and the CEO came up with this new policy for trustee recruitment to create new expectations from the beginning of a trustee's appointment:

This is a professional expertise we're expecting. Actually, we developed, as well, a process for asking people to step down before we ended the tenure, if they weren't making those commitments. I think it was about people knowing from the outset, if you join this organization, get a lot from it, but this is what we expect you to give. (Head of communications, Community charity)

The CEO of the Environmental charity referred to this new type of trustee he was looking for as 'value driven commercial people coming from big business' with a desire to actively combine the commercial and social logic in their trustee role, as below:

They're people who are primarily there because they want positive change in the world. They're not afraid to take risks or to take commercial money to get there. They don't see it as – There's evil money and good money. They see it as like – It's a bit more nuanced than that.

I think it comes down to egos, doesn't it? It's like some people on boards want to be on the board because they want to tell everybody they're on the board and they want to change things that reflect their egos. Other people are on boards because they genuinely want to see a better society. I think we've been lucky that the people on our board are definitely there to help society rather than to flash their names in front of whoever. (CEO, Environmental charity)

This was also reflected in the annual reports of these charities where the organizations specifically talked about the skills they were looking for, like below:

We have successfully recruited additional trustees with skills in marketing, strategy and enterprise, strengthening our board of trustees. (Mental health charity, Annual report, 2018)

This action did not require a large structural adaptation but was quite impactful in socializing market risk and strategic thinking as part of the trustee role on charity boards, particularly for trustees with commercial experience.

Introducing induction and retraining programs in commercial logic. In eight of the 10 cases that continued exploring the social finance opportunity, the charities also initiated a specific trustee training programme, which included topics such as commercial investment and strategic thinking^[1] (see Row 4 of Table IV). On the face of it, this seemed to be aimed

at the social-background trustees. It was framed as upskilling to improve financial literacy and to familiarize the trustees with some aspects of the commercial logic, as the executive explained below:

We had a trustee away day at the end of April, and we were talking to them about our big visions of this, to create the local community, and make it a livable community. They get that piece. Then, as part of the finance piece that supported that, I talked about the possibility of raising social finance. We didn't debate it a lot, on the basis of, that wasn't the time and place, but it's now becoming part of the common language that we use at these sort of visionary type meetings ... so we've got a follow-up day in October. A bigger proportion of that time will be spent on finance. We have to get them into the vision first, saying, 'Right, the building blocks behind it, like finance, will be there, and social finance is a part of that building block'. It's taking them on a journey without scaring them, and they sort of say, 'Oh, yes, I've heard that before. Oh, yes, I understand'. That's how you do it. I am doing a piece of work with [an advisor] around this, in terms of, how do we take people on a journey. (Finance director, Disability charity B).

However, as the below quote illustrates, the executives also needed to encourage trustees with a commercial background to think strategically in their roles and to be comfortable with market risk:

I would argue that the majority of trustees in the UK are passive recipients of the investment vehicle called fundraising. As a result, because they're not actively engaged in the quality of the investments they're making in fundraising, when you introduce a new investment vehicle called social finance, you're asking them to make a double leap, first, over the first hurdle which perhaps they've already got to grips with which is investment in fundraising. There's a second level. It does require a more sophisticated investment [of effort] to operate with social finance. (CEO, Homelessness charity C)

There was clear evidence that these eight charities changed their ongoing training either as formal training or as 'away days' to require commercial trustees to actively use their skills, as below:

Trustees specifically reviewed the progress of the business plan at a weekend business meeting consisting of presentations and discussion. (Annual report, 2019, Homelessness charity C)

In 2011, a paper setting out governance expectations called 'A Blueprint for Working Together' was produced and approved and this continues to be a reference point for the Board that is reflected on at the annual Board away-day. (Annual report, 2016 Homelessness charity B)

Furthermore, these charities also made changes to the induction of new trustees. For example, the community charity had two pages outlining the roles and responsibilities of

trustees and explicitly stated their policy of hiring trustees for their skills and requiring them to have an induction:

Potential trustees are given a formal induction to the charity and provided with information about it, including the Articles of Association, latest business plan, our activities and organisational structure, along with information on the role of trustees, their responsibilities and charity law.

Individuals undertake a formal probationary period during which they are expected to become a member of [name of charity] Community Development, become familiar with our activities, and attend at least three trustee board meetings as an observer. On completion of a probationary period, they can be formally co-opted as a trustee by the trustees, prior to standing down and being put forward for election at the next AGM. Prior to being elected, potential trustees are asked to complete a formal trustee declaration. (Community charity, annual report 2019)

Interviews with this charity's executives again showed that this was an intentional move:

... so we brought in a much more robust induction process for trustees. We had actually actively recruited them through applying some principles that we applied to our workforce to the board. People weren't coming in and thinking they were going to be a member of the PTA, for a local primary school. Their understanding that they were legally responsible for this organization. This is the time commitment. (Head of communications, Community charity)

These changes were common across the cases where the charity adjusted their training and induction programs to activate the trustees with commercial backgrounds to combine their commercial skills with the social logic (as described in Table IV). These activities increased the commercial logic influencing the board's activities, as the following quote illustrates: 'We do use KPIs now, which we never used to before'. (Trustee, Homelessness charity B)

These policy changes had two effects, the first was encouraging existing trustees to combine logics. If they were uncomfortable doing so, they could leave. The second effect was that the new trustee recruitment policy ensured that the new trustees were ready to combine logics, as below:

A lot of the trustees left because they weren't comfortable with risk. Also, they didn't really have the skills to manage risk. It wasn't where their comfort zone was. The needs to move to social enterprise actually forced the change and the board which changed the culture. (CEO, Environmental charity)

And it's a big piece of cultural shift work that [the CEO] had to do when he came into – as you said, move it to a point where you can be both. [chuckle] I mean Oxfam has shops, that's the commercial element, but they deliver good. So it was just shifting

people's mindset and ultimately, the people that didn't cope with that cultural shift left, didn't they? I'm thinking of the board in particular. (Communications director, Community charity)

In contrast, the cases that stopped pursuing social finance did not change their induction or training and had relatively generic statements about the duties of the trustees like below:

The trustees are responsible for preparing the trustees' report and the financial statements in accordance with applicable law and regulations. Company law requires the trustees to prepare financial statements for each financial year in accordance with applicable law and FRS 102, the Financial Reporting Standards applicable in the UK and the Republic of Ireland. (International poverty charity, annual report 2018)

In summary, the above-described strategies of the charity executives show how these charities increased trustees' willingness to use their commercial logic in the charity setting and engage in market risk. Below, we describe the outcomes of these strategies for the relevant charities.

Social Finance Loans and Increased Hybridity

Out of the 10 charities in our study pursuing social finance as a strategic opportunity, eight of them took out a social finance loan in the observation period. This was a significant step, as it got the charity into debt which they committed to pay back through commercial activity (See Table V for loan details and the specific social impact of each loan as per official social finance UK case studies).

All eight charities announced a new strategic plan or vision, either in a document, or an annual report, which highlighted their vision of using finance backed commercial growth to secure the future of the charity and sustain or increase their level of impact, as below:

Vision: [the charity's] vision is of a society where street homelessness is ended, and nobody need sleep rough on the streets.

Mission: In pursuit of this vision, our mission is to ensure that every [...]service user is able to find and sustain a decent home, develop supportive relationships and lead a fulfilling life.

Business Priorities: [the charity's] business priorities will focus on core business areas where we have a strong track record in delivery, illustrating and consolidating the distinctiveness of our service offer, and achieving a replicable delivery model that avoids becoming overly complex.

Social investment: We will build on our success in engaging with social investors to provide working capital to deliver services and invest in accommodation for disadvantaged individuals. Attracting social investment in order to purchase properties will

Table V. Outcomes of taking social finance

Case	Commercial growth in plan?	Official offer for SF?	New/expanded commercial revenue model?	Year first taken	Increased social impact?	Role of board	Percentage of social/Commercial/hybrid trustees	Percentage change in total revenue (TR) and charitable expenditure (CE) 2017-2021
Disability charity B	Yes	No	Yes They have increased their commercial property portfolio	N/A	Increased service provision	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	77/23 in 2016 50/50 in 2021	TR: -15% CE: -16%
Disability charity A	Yes	No	Yes Commercial fees and trading	N/A	Scaled operations on two commercial projects to help beneficiaries.	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	70/30 in 2016 50/50 in 2021	TR: 0% CE: +1%
Community charity	Yes	Yes Unsecured loan (Source: good finance UK)	Yes Commercial fees and trading	2018	Increased the capacity to take children into nursery and give quality pre-school education to more children	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	70/30 in 2016 29/57/14/ in 2021	TR: +28% CE: 0%
Homelessness charity C	Yes	Yes social impact bond (Source: social finance UK)	Yes Commercial fees	2012	They got at least 160 chronically unemployed and homeless people back into society	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	64/21/15 in 2016 50/35/15 in 2021	TR: +14% CE: +32%

(Continues)

Table V. (Continued)

Case	Commercial growth in plan?	Official offer for SF?	New/extruded commercial revenue made?	Year first taken	Increased social impact?	Role of board	Percentage of social/Commercial/hybrid trustees	Percentage change in total revenue (TR) and charitable expenditure (CE) 2017–2021
Mental Health charity	Yes	Yes Secured loan (Source: good finance UK)	Yes Commercial fees and trading	2018	Doubled the number of clients seen in therapy practice	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	70/30 in 2016 50/50 in 2021	TR: +86% CE: +79%
Homelessness charity B	Yes	Yes social impact bond with 5 year repayment schedule. (Source: social finance UK)	Yes Contract with national and local government Yes Performance-based contract	2012	They helped 1900 people avoid homelessness	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	30/70 in 2016 30/70 in 2021	TR: +20% CE: +28%
Children's Charity	Yes	Yes Two unsecured loans. (Source: social finance UK)	Yes Commercial fees for services from local and national government	2017	They increased services to the most vulnerable children in the UK. Piloted an innovative intervention for at risk children	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	50/50 in 2016 30/70 in 2021	TR: +76% CE: +73%
Environmental charity	Yes.	Yes fixed period loan (source: good finance UK)	Yes Commercial fees	2017	Ran major campaigns for redistributing excess clothing to children in need and recycled over 500,000 disposable coffee cups	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	30/25/45 in 2016 9/64/27 in 2021	TR: +68% CE: +92%

(Continues)

Table V. (Continued)

<i>Case</i>	<i>Commercial growth in plan?</i>	<i>Official offer for SF?</i>	<i>New/exploded commercial revenue model?</i>	<i>Year first taken</i>	<i>Increased social impact?</i>	<i>Role of board</i>	<i>Percentage of social/Commercial/hybrid trustees</i>	<i>Percentage change in total revenue (TR) and charitable expenditure (CE) 2017–2021</i>
International sanitation non-profit	Yes	Yes. Several fixed period loans (Source: charity annual reports)	Yes Commercial fees and trading	2017–21	They are now providing clean drinking water to over 500,000 people, improved sanitation for over 700,000 people and improved hygiene facilities for over 550,000 people	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	70/30 in 2016 50/50 in 2021	TR: +381% CE: +1210%
Apprenticeship network for unemployed	Yes	Yes 3-year unsecured loans (Source: good finance UK)	Yes Commercial fees	2015	They now work with up to 200 young people each year, 83% of whom were previously unemployed	Actively involved in strategy-making Comfortable with financial risk in a diversification strategy	Commercial board since 2018	Not available

be with the intention of meeting specific project objectives, such as providing units of accommodation for people leaving hospital or residential care as part of a health rehabilitation programme. It is not an objective to build a large, generalist property portfolio. (Excerpt, business plan, 2016–19, Homelessness charity C)

The organizations also stated that they amplified their social mission, as below:

[The charity] now works with up to 200 young people each year, 85 per cent of whom were previously unemployed. Their apprentices include those who would not traditionally have worked in the industry such as women (15 per cent), ex-offenders (12 per cent) and disabled people (10 per cent). (Homelessness charity C, impact case study)

In the two remaining cases where social finance was not taken, the charity executives stated that they did not have enough support to take a social finance loan, as described below:

We got the closest [to engaging in social finance] with our care providing business. This is where trustee risk appetite may have slightly caught us out. Being risk averse... So to make those generally scalable, we need to do them on a fully commercial basis. So, we pulled together three aspects of that, which is our products business, our training and consulting business, and our communications services business, and put them together. That's something that happened under my watch in the beginning of 2010, sort of putting them together into one commercial group, to get the right skill sets in place, to get the team up and running, these kinds of things. (CEO, Disability charity A)

Interestingly, in these two instances, the organizations still funded a commercial opportunity from other sources and increased their commercial activity from single figures to 30 per cent of their income. Furthermore, both organizations set up a commercial services group and made business development part of the core strategy alongside getting grants and donations.

We observed that across the 10 cases that pursued social finance (including the two that eventually did not take it), the role of the trustees in achieving the diversification plan was explicitly stated: they were to help by using their professional skills to implement this new strategy that involved financial risk as the below quote illustrates:

The board we've got now, I would say, is the best board we've ever had. It's very professional. There are still certain people from community who were there driven by passion for the charity. I'm sure there's part of that for all of them, but there's others who bring with them also a lot of professional skills. Some part it's a challenging board, but it's a good challenge. (CEO, Community charity)

Furthermore, in our coding of trustee backgrounds in the 10 cases, we identified how the ratio of commercial to social trustees also shifted after these organizations considered taking social finance. Nine of the ten charities increased the number of both commercial and combined background trustees in this period. For example, in disability charity B, the composition moved from almost 80 per cent social background to 50 per cent social

and 50 per cent commercial background. When we looked at the replacements, we noticed that in most cases individuals with pure social backgrounds were replaced by those with commercial backgrounds. For instance, the head of a child poverty NGO who had exclusively worked in the social sector was replaced by the marketing director from a major British telecommunications company. In the below quote, the trustee of a homelessness charity explains the need for such change:

Maybe as we are moving towards being this quasi-social enterprise, we need more of those commercial backgrounds. It may be, I think. I'm just trying to think of the people who are there now. We've got someone I recruited who is ex-IBM and has obviously been very helpful on the IT side, and obviously that is much more important and becoming more important in the same way as here, delivering more digitally. (Trustee, Homelessness charity B)

Our analysis of board compositions also showed a small increase in the number of combined, rather than purely commercial background trustees coming onto the boards. The only exception was the unemployment charity which was already fully commercial. These changes, which can be seen in the second last column of Table V, point to an increased influence of the commercial logic on the boards of these charities. Furthermore, in the last column, it shows that these charities overall have managed to increase their total revenue and charitable expenditure in the period we studied them.

In the section below, we provide a summary of our findings and their contributions to extant literature on hybridity and beyond.

DISCUSSION

Charity organizations play a vital role in solving complex social and environmental issues but increasingly struggle to maintain resources due to reliance on external stakeholders for funding (Dart, 2004; Ko and Liu, 2021; Maier et al., 2016). Prior research has suggested that hybridization can help charity organizations overcome these pressures but is difficult to achieve (Cappellaro et al., 2020). In this study, we asked *whether/how leaders of charity organizations can govern a hybridization process successfully to achieve strategic goals*. Our cases can be divided into whether the charity executives recognized a hybrid opportunity or not (from 18 cases; 16 cases yes, two cases no); whether the board was able to consider introducing the commercial logic into the organization or not (from the 16 cases above; 10 cases yes, six cases no); and whether the organization eventually took the opportunity (from the 10 cases; eight yes, two no). Our comparative analysis reveals that yes, charity leaders can govern a hybridization process successfully if certain conditions are met.

First, we found that having sufficient socialization in the commercial logic enabled charity executives to combine the commercial and social logics. This, in turn, allowed them to view social finance as a strategic opportunity for the organization. Second, whether the charity's board of trustees felt the financial urgency and had the familiarity

with the format of the opportunity (although within their dominant logic) influenced their likelihood to seriously consider the hybrid opportunity. Finally, we observed that whether the organization sufficiently redefined the role of the trustees with a commercial background to enable them to actively combine social and commercial logics influenced whether hybridity levels increased in the organization.

Overall, we observed that taking a social finance loan required several steps towards hybridization, but many charities were not willing or failed to take them (Figure 1).

By systematically examining the effects of individual level actions and organizational policy changes on the governance of hybridization in a single logic organization, our study provides several contributions to extant research. We discuss the key contributions below.

Governing the Hybridization Process

Our findings highlight hybridity as a strategic tool for single logic organizations, particularly when there is an immediate need, but the identified opportunity lies outside the dominant logic of action. The literature on hybridization suggests that the introduction of a logic that is perceived as fundamentally challenging to core values can only be accomplished if incoming actors work to support existing organizational goals (Cappellaro et al., 2020; Dunn and Jones, 2010). However, scholars also warn that actors already in positions of power will likely challenge the hybridization effort (Cappellaro et al., 2020). Contrary to these studies that imply induced hybridization will eventually be rejected, we document a case of hybridization that appears to be more stable. We identify how this process requires official participation by executives and board members immersed in the incumbent logic, and decisions by boards to develop new official organizational policies. These findings greatly improve our understanding of hybridization as a process (Cappellaro et al., 2020; Dunn and Jones, 2010).

Furthermore, studies on the governance of hybrids have found that leadership tends to reflect the balance of logics in an organization (Bruneel et al., 2020; Mair et al., 2015; Pache et al., 2023). We show that for hybridization to occur, the balance of power needs to be shifted, in the favour of the incoming logic. More importantly, we show that this

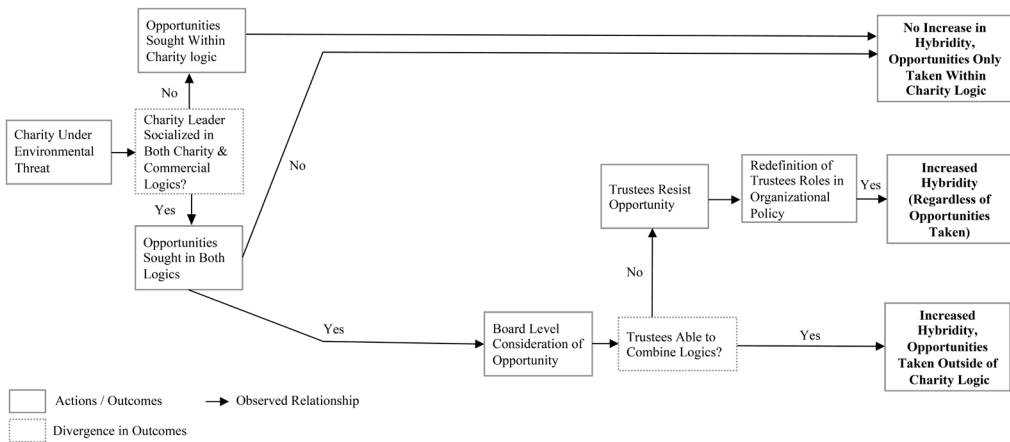


Figure 1. Hybridization of charities through strategic action

can be achieved if the organization already has executives and trustees with an understanding of the incoming logic but requires policy changes for these powerful individuals to enable hybridization (Wry et al., 2014). These findings further our understanding of how hybridity can be managed from a governance perspective (Bruneel et al., 2020; Mair et al., 2015; Pache et al., 2023; Wry et al., 2014), particularly regarding how upper echelons of a single logic organization can lead the process of hybridization successfully.

Our accounts of strategic hybridization also push forward the conversation of managerialism in charity organizations. Our findings are broadly consistent with extant research on managerialism (Hvenmark, 2016; Hwang and Powell, 2009; Hwang and Suárez, 2019; Maier et al., 2016) showing how commercial practices are being institutionalized in new fields like the non-profit sector. We add to this work by highlighting links between managerialism in the charity sector and the hybridization of charities. We evidenced managerialism in our cases in the way that most charity executives already conformed to the institutionalized requirements for higher levels of professionalism in charities, with most of them having socialization in the commercial logic. We observed that this increasingly common dual background of the charity executives was key in their ability to recognize hybrid opportunities and initiate strategic change to activate cognitive hybridity in others through role redefinition.

Hybridity on Boards

Our study also contributes to the literature by highlighting the importance of organizational role expectations at the board level during the process of hybridization. Previous research examining the boards of hybrid organizations have found that directors will typically enact the logic they are most familiar with (Pache et al., 2023). To the contrary, in our study, trustees with a commercial background became blockers of hybridization when they refused to use their commercial logic in a context where they deemed it inappropriate. The role of charity trustees as cautious protectors of the organization and its resources aligns with the traditional perspective found in non-profit governance literature (Maier et al., 2016).

First, our findings regarding the policy changes implemented to encourage trustees to combine logics add to extant work on the structural balancing of hybridity in an organization (Battilana and Dorado, 2010; Pache and Santos, 2013b; Smith and Besharov, 2019). Studies of born-hybrids found that by hiring tabula rasa candidates and socializing them in both logics helped these organizations navigate the challenges and tensions associated with combining logics (e.g., Battilana and Dorado, 2010). We build on this work by showing that during hybridization non-tabula-rasa trustees with an understanding of the incoming logic will likely compartmentalize, rather than actively combine the incumbent and incoming logics.

We find that role design is critical for encouraging a shift in these important organizational members towards actively combining logics in their roles and that this action helps the organization structurally balance the tensions of hybridity. Our finding on how to move these members from compartmentalization to combination of dual logics is critical as such individuals with different institutional backgrounds are present in both

commercial and non-profit boards and if empowered, can be an important source of support (rather than resistance) during hybridization.

Second, our findings complement recent studies that highlight the value of institutionally diverse boards in helping hybrid organizations sustain their hybridity (Bruneel et al., 2016; Mair et al., 2015, Pache et al., 2023). We find that diverse boards can only go so far in helping hybridity if board members are not expected and encouraged to actively combine multiple logics. Our findings identify conditions under which single logic organizations can increase not only the diversity of their boards but also the expectations of trustees to actively use the incoming logic during hybridization.

Finally, our study provides support for arguments from Battilana et al. (2017) and Pache and Thornton (2020) that the scope of analysis for hybridity should extend beyond organizational forms to include identities and rationalities that define an organization's goals and authority structures. Our study offers insights into how hybridity can be examined in leadership structures operating under a single dominant logic (Binder, 2007). Based on our findings, we suggest that roles can be functionally hybrid when they enable individuals to combine two logics while they work. Crucially, individuals' willingness to actively use multiple logics is a key antecedent for organizations to have functionally hybrid roles in their board (Pache et al., 2023).

CONCLUSION

This paper addresses calls to explore processes to address complex social and environmental problems by broadening the unit of analysis from social enterprises to include charity organizational forms (Battilana et al., 2017; Mair and Rathert, 2020; Pache and Thornton, 2020). Charity organizations provide an effective approach to addressing complex social and environmental problems including COVID-19, poverty and food insecurity, gender inequality, climate change, and sustainable energy production. Yet, this organizational form is under increasing survival threat (Maier et al., 2016), which has caused charity executives to find creative approaches to survive.

Against this backdrop, our paper explores how charities can strategically leverage hybridity to address complex social and environmental problems. The first key takeaway of our study is that leaders who are socialized in multiple logics can effectively navigate the tensions of hybridization and strategically induce hybridity within their organizations. Future research could investigate additional leadership strategies and tactics for governing hybridization processes. Second, our findings underscore the importance of role design in enabling hybridization. While our study demonstrates successful role alterations, further research could examine the long-term impacts of such changes on outcomes for the professionals in these positions and their organizations. Finally, future research could investigate the performance of hybridized charities relative to born hybrid social enterprises.

Overall, we hope that our insights on the evolution of charities in their effort to address complex social and environmental problems can pave the way towards further scholarly research and greater insights into organizational practice regarding leadership strategies and role design to achieve hybrid organizational models.

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NOTE

- [1] Two cases out of the 10 did not do this induction, as they already had commercial trustees using their commercial skills after these charities removed their charity status and created a board of directors instead.

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